

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001

Periodic Reporting
(Proposals Eight and Nine)

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Docket No. RM2012-8

**COMMENTS OF MPA – THE ASSOCIATION OF MAGAZINE MEDIA
(October 31, 2012)**

MPA – The Association of Magazine Media (“MPA”) respectfully submits these comments in response to Order No. 1488, “Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposals Eight and Nine),” issued by the Postal Regulatory Commission (“the Commission”) on October 2, 2012. Proposal Nine consists of a series of proposed changes to the Commission’s cost models for flats generally, and the Periodicals cost model in particular. These comments discuss the implications of this proposal for measuring Periodical cost avoidances and designing Periodical rates.

1. Treatment of Allied Piece-Related Costs

Proposal Nine (in particular, Modification 4 – Improved Piece Allied Flows) would substantially increase modeled allied piece-related costs (e.g., the cost of moving pieces between piece-sorting operations and loading containers of pieces onto trucks for transportation after the Postal Service has sorted them). For example, the proposal would increase allied piece-related costs for 5-Digit Barcoded, Machinable Flats from

1.73 cents¹ to 3.06 cents² and the cost difference between these flats and Carrier Route Barcoded, Machinable Flats by 1.33 cents.³

The substantial increase in allied costs adds to the urgency of having the Commission resolve how allied piece-related costs should be treated for rate design purposes. In every Annual Compliance Report since the enactment of the Postal Accountability Enhancement Act (“PAEA”), the Postal Service has ignored these costs when calculating Periodicals Outside County workshare cost avoidances. The Commission, however, has not affirmed this treatment. Rather, in Docket No. RM2009-1, it stated, “[p]roposals to properly reflect differences in allied costs in cost avoidance calculations would be welcome in future cost methodology rulemakings.” Order No. 170 at 20.

As MPA explained in Docket Nos. ACR2007 (Comments of ANM and MPA at 13-16) and RM2009-1 (Comments of MPA and ANM at 4-5), the Postal Service’s approach is inappropriate. Workshare cost avoidances should include both direct and allied cost avoidances. First, 39 U.S.C. § 3652(b)(1) requires the Postal Service to annually report “the per-item cost avoided by the Postal Service by virtue of [each market-dominant] discount.” While the Commission is clearly authorized to establish costing methods, nowhere does the PAEA suggest that costs shown by PRC-approved models to vary with presort level should be ignored in workshare cost avoidance calculations. In fact, this inconsistency in approach is self-contradictory and irrational.

¹ Docket No. RM2012-8, USPS-LR-1, PER.OC.Flats.0915.xls, “SUMMARY,” cell G45 with cells A7, A9, A11, A13, and A15, and A17 of “Modifications” set to OFF.

² Docket No. RM2012-8, USPS-LR-1, PER.OC.Flats.0915.xls, “SUMMARY,” cell G45.

³ Because Carrier Route Barcoded, Machinable Flats incur no allied piece-related costs, the 1.33 cents is simply 3.06 cents minus 1.73 cents. This cost difference is particularly important because 5-Digit Barcoded, Machinable flats and Carrier Route flats comprise 85 percent of Periodicals Outside County volume. Docket No. R2013-1, USPS-LR-3, CAPCALC-PER-R2013.xls, “Outside County.”

Second, including allied operations in cost avoidance estimates for Periodicals is required for consistency with the methods used to estimate cost avoidances in other classes of mail. In Docket No. R2006-1, the Commission adopted a piggyback approach to ensure that allied mail processing costs were included in First-Class Mail and Standard Mail cost avoidance models. See, e.g., R2006-1 Op. & Rec. Decis. ¶ 5161.

Third, including allied operations in cost avoidance estimates also maintains internal consistency *within* the Periodicals Mail Cost Model. If allied costs are omitted when determining cost avoidances, then the same activity (e.g., unloading a container of Periodicals at the delivery unit) will be included in the model for some preparations (e.g., mail entered on 5-Digit pallets), but not for others (e.g., mail entered on 3-Digit pallets). The result is an internal inconsistency within the model. See Docket No. ACR 2007, Comments of ANM and MPA at 15-16 (explaining point).

MPA urges the Commission to require the Postal Service to include both direct and allied cost avoidances in the workshare cost avoidance estimates presented in the FY 2012 Annual Compliance Report (ACR) and used to calculate Periodicals workshare passsthroughs.

2. Sending Efficient Pricing Signals

The Commission has repeatedly encouraged the Postal Service to reduce its costs for handling Periodicals by providing more efficient pricing signals. For example, in its FY 2011 Annual Compliance Determination (at 103), the PRC recommended, “Worksharing passthrough percentages (especially carrier route) and price-cost ratios for bundle and containers should be moved towards 100 percent to provide incentives for efficient mail preparation.”

While Proposal Nine reduces the direct piece-related cost avoidance for carrier route flats modestly and estimated container costs to a greater extent, the carrier route

passthrough (even ignoring allied costs) and price-cost ratios for bundles and containers remain well below 100 percent. MPA urges the Commission to again remind the Postal Service to provide appropriate and full incentives for efficient mail preparation.

Respectfully submitted,

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